



DATE: September 14, 2020

TO: Amy J. Malm, Hearing Examiner

FROM: Steven J. Junior, Insurance Program Manager

SUBJECT: Acquisition of Control of Southern Life and Health Insurance Company by Universal Fidelity Life Insurance Company (Case No. 20-C43728)

DESCRIPTION OF THE TRANSACTION

Overview

Universal Fidelity Life Insurance Company filed a Form A, "Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer", dated August 4, 2020, whereby it proposed to acquire all of the common capital stock, and thereby full ownership, of Southern Life and Health Insurance Company. This document was received by the Office of the Commissioner of Insurance (hereinafter also, "OCI") on August 5, 2020. Jed Roher, an attorney with the Madison law office of Husch Blackwell LLP, signed a cover letter introducing the filing on behalf of Universal Fidelity Life Insurance Company. Universal Fidelity Life Insurance Company is a privately held life, accident and health insurance company domiciled in Oklahoma. C. Brent Haggard, a natural person resident in Oklahoma, is the ultimate controlling person of Universal Fidelity Life Insurance Company.

Under the terms of a Stock Purchase Agreement dated as of July 9, 2020 between Honor Capital Corp. and Universal Fidelity Life Insurance Company, Southern Life and Health Insurance Company would redeem its preferred shares and make whatever distributions of surplus are necessary to reduce its capital and surplus to \$3,250,000. At closing, Universal Fidelity Life Insurance Company would pay Honor Capital Corp. \$500,000 plus the amount of the capital and surplus to purchase Southern Life and Health Insurance Company. Universal Fidelity Life Insurance Company represents that the source of the funds for the purchase of Southern Life and Health Insurance Company will be its own cash on hand and that no part of the consideration is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding, or trading securities.

At present, Southern Life and Health Insurance Company is not marketing any new direct business and is in runoff. Effective March 1, 1992, Southern Life and Health Insurance Company sold all of its premium-paying business, other than annuities, to United Insurance Company of America (United). United then transferred all Louisiana policies from the block to its affiliate, Union National Life Insurance Company (Union National). Effective December 31, 1992, Southern Life and Health Insurance Company entered into a coinsurance agreement with Union National, under which Southern Life and Health Insurance Company assumed 100% of Union National's extended term and paid-up life insurance policies in Louisiana. Effective December 27, 1993, Southern Life and Health Insurance Company entered into a coinsurance agreement with United, under which Southern Life and Health Insurance Company assumed a block of paid-up and extended-term life insurance. With these two assumptions, Southern Life and Health Insurance Company agreed to coinsure policies that become paid-up or extended term through nonforfeiture election (with some coming from the block that Southern Life and Health Insurance Company had originally written), while United and Union National continued to insure the premium-paying business. Effective September 30, 2004, the coinsurance agreement with Union National was recaptured and, effective January 1, 2005, the coinsurance agreement with United was recaptured.

The current business of Southern Life and Health Insurance Company consists mostly of direct life policies that have become paid-up or extended-term through nonforfeiture election and assumed annuity policies. Premium income for 2019 consisted of \$1,540 of individual annuity business under reinsurance assumed from Guaranty Income Life Insurance Company. All direct policies outstanding are paid-up or extended-term through nonforfeiture election and are in runoff. The company is licensed in the following states: Alabama, Delaware, Florida, Louisiana, Mississippi, Texas, and Wisconsin.

Universal Fidelity Life Insurance Company was incorporated under the laws of the State of Oklahoma on May 9, 1930, as a mutual benefit association under the name Universal Accident Insurance Company, located in Tulsa, Oklahoma. It commenced business on July 1, 1935. In 1955, Universal Fidelity Life Insurance Company converted to a legal reserve stock insurance company and adopted its current name in 1961.

On March 11, 1996, Pioneer Financial Services, Inc. ("PFS") acquired 100% of Universal Fidelity Life Insurance Company's common stock. In December 1996, PFS and Consec, Inc. entered into an Agreement and Plan of Merger pursuant to which PFS became a wholly-owned subsidiary of Consec, Inc. The acquisition of Universal Fidelity Life Insurance Company by Consec, Inc. was challenged by the Oklahoma Insurance Department and Universal Fidelity Life Insurance Company was placed under an Order of Supervision. The challenge was eventually resolved when Consec, Inc. filed a Form A with the Oklahoma Insurance Department requesting approval for the sale of Universal Fidelity Life Insurance Company to Pre-Paid Legal Services, Inc. The sale was approved and, effective December 30, 1998, Pre-Paid Legal Services, Inc. acquired all of the common stock from PFS. As part of the purchase agreement, PFS, through Pioneer Life Insurance Company, reinsured all of the accident and health business. Universal Fidelity Life Insurance Company retained its existing life business and continued to provide claims processing services for the coinsured Medicare supplement and healthcare business.

On December 31, 2001, Universal Fidelity Holding Company, Inc. acquired 100% of Universal Fidelity Life Insurance Company's outstanding common stock from Pre-Paid Legal Services, Inc. As part of the purchase agreement, Universal Fidelity Life Insurance Company reinsured 95% of its life insurance business with LifeShield National Insurance Company, an Oklahoma domestic life insurance company located in Oklahoma City, Oklahoma.

On January 7, 2013, pursuant to a Form A submitted to the Oklahoma Insurance Department, Universal Fidelity Holding Company, Inc. was merged into Universal Fidelity Life Insurance Company. There was no change in the ultimate controlling person, business operations, management or financial status of Universal Fidelity Life Insurance Company as a result of this merger.

On April 14, 2017, pursuant to a Form A filed with and approved by the Oklahoma Insurance Department, Universal Fidelity Life Insurance Company and its ultimate controlling person, C. Brent Haggard, closed on a transaction to purchase all of the minority owner's common shares. Universal Fidelity Life Insurance Company purchased 212,032 shares at a cost of \$1,250,000 and the remainder of the shares were purchased by Mr. Haggard. On April 13, 2018 and April 2, 2019, Universal Fidelity Life Insurance Company purchased 42,307 shares and 42,407 shares, respectively, of the common stock from Mr. Haggard.

The buyout of the minority shareholder in 2017 resulted in all of Universal Fidelity Life Insurance Company's outstanding common stock being owned by Seneca International, Ltd., a Texas limited partnership. Brent Haggard is the President of Seneca International, Ltd.'s general partner, CBH Management Services, Inc., a Texas corporation, and owns or controls all of the voting equity of CBH Management Services, Inc.; Mr. Haggard owns [greater than](#) 80% of the equity interests of Seneca International, Ltd., with no other individual holding greater than a 10% interest in Seneca International, Ltd.. Mr. Haggard is also the Chairman, President and Chief Executive Officer of Universal Fidelity Life Insurance Company.

Universal Fidelity Life Insurance Company currently has two wholly-owned subsidiaries, Universal Fidelity Administrators Company and Universal Capital Company, LLC, and is a sister company to Universal Fidelity Services Company, LLC, which is also wholly-owned by Seneca International, Ltd.

Universal Fidelity Life Insurance Company is licensed in the states of Arizona, Arkansas, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas. Its executive offices are located in Oklahoma City, Oklahoma, and its operational offices are located in Duncan, Oklahoma. Operations are organized in three divisions – Administrative Services, Life and Medicare Supplement Insurance, and Student Accident Insurance.

The following is a description of each of the legal and natural persons, other than Universal Fidelity Life Insurance Company, that compose the holding company system of which Universal Fidelity Life Insurance Company is a part.

C. Brent Haggard

C. Brent Haggard is a natural person resident in Oklahoma. He is the ultimate controlling person of Universal Fidelity Life Insurance Company. He holds an indirect ownership interest of 98.53% of Universal Fidelity Life Insurance Company, while his mother holds 1.27% and two others hold a combined 0.2% interest. Since Southern Life and Health Insurance Company will be a wholly-owned subsidiary of Universal Fidelity Life Insurance Company, the distribution of ownership interests in that company will be the same.

CBH Management Services, Inc.

CBH Management Services, Inc., a stock corporation, is the general partner of Seneca International Ltd. Of the 10,000 shares of \$1.00 par value common stock authorized, 3,000 shares are issued and outstanding. All of the common shares are subject to a Voting Trust Agreement with respect to which Mr. Haggard is the trustee. Of the 3,000 issued and outstanding shares, 1,000 are owned by Mr. Haggard and 2,000 are owned by his mother, Mary Jo Haggard.

Seneca International Ltd.

Seneca International Ltd., a limited partnership, is an investment company. CBH Management Services Inc. is the General Partner of Seneca International Ltd., and holds approximately 1.9% of the equity interests. Mr. Haggard is a limited partner and holds approximately 97.9% of the equity interests, and the remaining approximately 0.2% of the equity interests are held by two other limited partners.

Universal Fidelity Services Company, LLC

Universal Fidelity Services Company, LLC, an Oklahoma-domiciled limited liability company of which Seneca International Ltd. is the sole member, has no active operations, but receives fee income related to pharmacy benefit management contracts.

Universal Fidelity Administrators Company

Universal Fidelity Administrators Company, a stock corporation domiciled in North Carolina that is wholly-owned by Universal Fidelity Life Insurance Company, holds a North Carolina third party administrator's license and contracts with vendors used in ERISA third party administrator activities. Of the 30,000 shares of \$1.00 par value common stock authorized; 10,000 shares are issued and outstanding.

Universal Capital Company, LLC

Universal Capital Company, LLC, an Oklahoma series limited liability company of which Universal Fidelity Life Insurance Company is the sole member, was formed to make investments in technology or other unrelated businesses.

Legend Insurance Agency LLC

Legend Insurance Agency LLC, a Texas-domiciled limited liability company of which Mr. Haggard is the sole member, is a widely licensed insurance agency and a managing general underwriter for stop loss, blanket student accident, and Medicare supplement insurance.

GR Phronesis Inc.

GR Phronesis Inc., a Texas-domiciled stock corporation, is the holder of a pension trust for the benefit of Mr. Haggard, but is otherwise inactive. Of the 100,000 shares of no par value common stock authorized, there are 10,000 shares issued and outstanding, all of which are owned by Mr. Haggard.

Scope of Wisconsin's Regulatory Concern

Section 611.72, Wis. Stat., requires the Office of the Commissioner of Insurance to approve a plan for acquisition of control if it finds, after a hearing, that the plan would not violate the law or be contrary to the interests of the insureds of any domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation.

SUMMARY OF THE KEY DOCUMENTS

The following are the principal documents that allow one to form an understanding of the proposed acquisition:

Stock Purchase Agreement

There is a Stock Purchase Agreement dated July 9, 2020 between Honor Capital Corp. and Universal Fidelity Life Insurance Company. Under this agreement, immediately prior to the Closing Southern Life and Health Insurance Company will: (i) redeem all of the issued and outstanding shares of its own class A Preferred stock, par value \$500 per share, all of which are held by Seller, for an amount equal to (A) the liquidation value of each share of such class A Preferred stock, plus (B) the aggregate unpaid dividends accrued with respect to each share of such class A Preferred stock as of the Closing; (ii) transfer to Honor Capital Corp. all of the issued and outstanding capital stock of Southern Financial Corp., Southern Mortgage Holding Corporation and Southern Investors Corp., which are all of the subsidiaries of Southern Life and Health Insurance Company; and (iii) transfer to Honor Capital Corp. an amount of cash such that, following such transfer, the Estimated Adjusted Capital and Surplus of Southern will be \$3,250,000 (collectively, the "Pre-Closing Transfers"). In connection with the filing of this Form A with the OCI, Southern Life and Health Insurance Company will file with the OCI a dividend report reflecting the Pre-Closing Transfers.

Southern Life and Health Insurance Company will retain all assets and liabilities on its balance sheet as of the Closing. Prior to the Closing Honor Capital Corp. will convert all of Southern Life and Health Insurance Company's investments, with the exception of \$500,000 of U.S. Treasury Notes on deposit with the State Controller's Office for the State of Wisconsin (the "Treasury Notes"), to cash. At the Closing, Honor Capital Corp. will transfer that cash, which is anticipated to comprise all of Southern Life and Health Insurance Company's assets except for the Treasury Notes and certain policy loan receivables, to Universal Fidelity Life Insurance Company. At the Closing or as soon as reasonably practicable

thereafter, Universal Fidelity Life Insurance Company will transfer that cash to Southern Life and Health Insurance Company.

At the Closing, Universal Fidelity Life Insurance Company will pay to Honor Capital Corp. an amount equal to \$500,000, plus \$3,250,000, which is Southern Life and Health Insurance Company's "Estimated Adjusted Capital and Surplus" as of the Closing. Under the agreement, Southern Life and Health Insurance Company's "Adjusted Capital and Surplus" and its "Estimated Adjusted Capital and Surplus" will both be \$3,250,000 immediately prior to the Closing. It is the intention of Honor Capital Corp. and Universal Fidelity Life Insurance Company that the Adjusted Capital and Surplus and the Estimated Adjusted Capital and Surplus will be \$3,250,000 immediately prior to the Closing. The agreement provides for an adjustment process to rectify any discrepancies between the Adjusted Capital and Surplus and the Estimated Adjusted Capital and Surplus once financial statements have been prepared as of the date of the Closing.

This agreement is governed by Delaware law.

Memorandum Agreement with Finder

There is a Memorandum Agreement dated February 25, 2020, by and between Fletcher Financial Inc. and Universal Fidelity Life Insurance Company. This agreement provides that Fletcher Financial Inc. will receive, upon the closing of the acquisition of control, a specified finder's fee in cash for identifying and introducing Southern Life and Health Insurance Company as an acquisition for Universal Fidelity Life Insurance Company.

Administration and Services Agreement

Upon the closing of the acquisition of control, there is to be an Administrative Services Agreement by and between Southern Life and Health Insurance Company and Universal Fidelity Life Insurance Company. Under this agreement, Universal Fidelity Life Insurance Company is appointed to provide all services necessary for the managing, administering and performing home office functions for Southern Life and Health Insurance Company, including claim services. Key provisions include the following:

- Universal Fidelity Life Insurance Company agrees to comply with all applicable laws, regulations, and pronouncements of regulatory authorities governing Southern Life and Health Insurance Company.
- All books and records developed and maintained by Southern Life and Health Insurance Company or Universal Fidelity Life Insurance Company under or related to this agreement shall be treated as books and records of Southern Life and Health Insurance Company. All books and records of Southern Life and Health Insurance Company are and shall remain property of Southern Life and Health Insurance Company and shall remain subject to the control of Southern Life and Health Insurance Company.
- Southern Life and Health Insurance Company or its authorized representatives shall have the authority to inspect and audit the books and records of Universal Fidelity Life Insurance Company or its contracted administrative entities concerning the business of Southern Life and Health Insurance Company at any time during reasonable business hours
- Universal Fidelity Life Insurance Company shall indemnify Southern Life and Health Insurance Company for liabilities and the like resulting from any gross negligence and willful misconduct in providing services under the agreement.
- In consideration of its services, Universal Fidelity Life Insurance Company is to be paid a monthly fee based on a fixed minimum amount for management and administration and a variable amount based on policies in force and actual death and lapse activity.
- This agreement shall continue for 36 months from its effective date and, thereafter subject to any regulatory approval or reapproval required by applicable law, for each successive 12 month period until: (a) either party gives the other 90 days advance written notice of termination; (b) either party gives the other written notice of breach of any material provision of the agreement and such

breach continues uncured for 60 days after delivery of such notice, upon which time the non-breaching party shall have the right to immediately terminate the agreement after giving written notice thereof to the breaching party; or (c) either or both parties fail to receive regulatory approval or reapproval of the agreement to the extent and within the time period required by applicable law, upon which time this agreement shall immediately terminate; provided, however, that Universal Fidelity Life Insurance Company shall, at Southern Life and Health Insurance Company's option, be obligated to continue to provide services to Southern Life and Health Insurance Company subject to the terms of this Agreement for up to ninety (90) days following the date of such termination.

- Disputes among the parties may be resolved by arbitration, except that arbitration does not apply to any disputes that arise in the course of any liquidation or rehabilitation proceeding under Chapter 645, Wis. Stat.
- The agreement shall be governed under the laws of the State of Oklahoma, without giving effect to its conflicts of laws principles.

OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON INQUIRIES

Format and Informational Sufficiency of the Form A

The Form A filing was prepared in a format that complies with s. 611.72, Wis. Stat. The information contained in the filing and in the supplementary information obtained by OCI in connection with review of this filing is sufficient for OCI to make a decision concerning the proposed plan.

Legality and Fairness of the Proposed Plan

My review of the Form A included a review of the following agreements:

1. Stock Purchase Agreement dated July 9, 2020 between Honor Capital Corp. and Universal Fidelity Life Insurance Company
2. Memorandum Agreement dated February 25, 2020, by and between Fletcher Financial Inc. and Universal Fidelity Life Insurance Company
3. Administration and Services Agreement by and between Southern Life and Health Insurance Company and Universal Fidelity Life Insurance Company

My review of these agreements is evidenced by the summaries presented earlier in this memorandum.

This review of the Form A and the component agreements of the proposed plan, with due consideration to supplementary information filed in response to examiner inquiries, discloses no basis for denial of the application on a point of law.

I can find no basis on which the proposed acquisition, as disclosed in the Form A and its supplementary filings, should not be regarded as reasonable and fair to Southern Life and Health Insurance Company and to its policyholders, within the scope of Wisconsin's regulatory concern.

Satisfaction of Licensing Requirements Maintained

Execution of the transactions disclosed in the Form A according to the plan indicated would have no effect on the ability of Southern Life and Health Insurance Company to maintain its existing license to write the lines of insurance for which it is presently licensed.

Effect on Competition within the Wisconsin Insurance Marketplace

Universal Fidelity Life Insurance Company is not licensed in Wisconsin and a review of the I-Site database of the National Association of Insurance Commissioners indicated that there were no reported orphan premiums in Wisconsin since at least 2010. There are no other insurance companies in Universal Fidelity Life Insurance Company's holding company system. As previously noted, Southern Life and Health Insurance Company has largely been in a run-off of its direct business since March 1, 1992. Accordingly, this transaction will not create a monopoly or substantially lessen competition in any type or line of business in Wisconsin.

Future Plans after the Change in Control

Under the plan for the acquisition of control, Southern Life and Health Insurance Company will remain in run-off indefinitely, at least until it achieves a capital and surplus of at least \$5,000,000 as a result of the progression of the run-off and the accumulation of investment returns. After this level of surplus is achieved, it is anticipated that the company will introduce the type of Medicare supplement, student accident and final expense life insurance that Universal Fidelity Life Insurance Company currently offers in the jurisdictions in which it is licensed, which do not overlap the current licensed territory of Southern Life and Health Insurance Company. Southern Life and Health Insurance Company is licensed in the following states: Alabama, Delaware, Florida, Louisiana, Mississippi, Texas, and Wisconsin. As previously noted, Universal Fidelity Life Insurance Company is itself licensed in Mississippi and Texas.

The Board of Directors of Southern Life and Health Insurance Company after the change in control is anticipated to be as follows:

Name and Residence	Principal Occupation
C. Brent Haggard Edmond, Oklahoma	Chairman, President and Chief Executive Officer Universal Fidelity Life Insurance Company
Brian L. Baxter Lincoln, Nebraska	Principal BLBaxter Consulting, LLC
Kyle D. Conrad Oklahoma City, Oklahoma	General Counsel Universal Fidelity Life Insurance Company
Lorene A. Hay Richland Hills, Texas	Senior Vice President, Chief Financial Officer, Chief Operating Officer, and Treasurer Universal Fidelity Life Insurance Company
Steven E. Taylor Bethel, Connecticut	Senior Vice President of Business Development Universal Fidelity Life Insurance Company

The officers of Southern Life and Health Insurance Company after the change in control are anticipated to be as follows:

Name	Office
C. Brent Haggard	President and Chief Executive Officer
Lorene A. Hay	Senior Vice President, Treasurer and Chief Financial Officer
Kyle D. Conrad	Senior Vice President, Secretary and General Counsel

Within the holding company system of which Universal Fidelity Life Insurance Company is a member, only Universal Fidelity Life Insurance Company functions as a direct employer of those who provide services to the holding company system. As a result, it provides all administrative functions for all members of the holding company system. Of the 99 people currently providing services to Universal Fidelity Life Insurance Company and its policyholders, approximately 70 employees work in the operational offices in

Duncan, Oklahoma; approximately 20 employees work in the executive offices in Oklahoma City, Oklahoma; and 9 employees are permanent remote employees.

Following the closing of the proposed acquisition, for transition and integration purposes Universal Fidelity Life Insurance Company will employ two of the three existing employees of Southern Life and Health Insurance Company, for a period of five months; following this five-month employment term Universal Fidelity Life Insurance Company will retain one of the three existing employees as a consultant through November of 2021. In addition, the third existing employee will be available to Universal Fidelity Life Insurance Company as an independent contractor for a short time post-closing.

Financial Soundness of Prospective Affiliates

Recent years' selected financial statistics for Universal Fidelity Life Insurance Company are as follows:

Financial Data	06/30/2020	12/31/2019	12/31/2018	12/31/2017
Admitted Assets	\$15,978,494	\$16,308,134	\$16,129,106	\$13,673,289
Liabilities	9,959,315	10,987,900	10,262,894	8,237,640
Surplus	6,019,179	5,320,234	5,866,212	5,435,649
Aggregate Reserve – Life	5,155,114	4,858,525	4,272,662	3,932,999
Aggregate Reserve – A&H	242,339	1,118,261	1,108,195	1,061,475
Contract Claims Reserve – Life	292,706	309,378	186,059	122,246
Contract Claims Reserve – A&H	2,019,386	3,122,477	2,340,936	1,602,439
Borrowed Money	820,500	0	0	0
Direct Premiums Written	3,162,244	6,930,860	7,797,315	8,235,329
Assumed Premiums Written	2,779,392	11,185,158	10,172,374	6,257,563
Net Premiums Written	3,260,435	12,267,136	11,003,183	9,611,427
Administrative Service Fee Revenue	3,626,636	7,968,973	8,786,706	8,068,510
Net Investment Income	212,609	428,737	238,020	171,447
Total Revenues	7,675,955	22,221,223	21,903,051	19,321,093
Death Benefits	373,764	557,542	568,580	576,565
Annuity Benefits	0	0	0	0
Disability and A&H Benefits	1,167,525	7,163,728	5,605,682	5,876,319
Surrender Benefits	35,024	54,314	112,074	135,158
Total Benefit Payments	993,930	8,366,555	6,679,292	6,348,922
General Expenses	3,462,460	7,030,486	7,011,247	7,032,472
Dividends to Shareholder	0	650,000	350,000	0
Shares Purchased for Treasury	275,425	288,800	250,000	1,250,000
Net Income	1,066,593	790,760	1,563,741	1,279,203
Life Insurance in Force	N/A	103,408,000	104,484,000	35,663,000
Life Certificates in Force	N/A	7,863	5,008	4,646
Annuity Contracts in Force	N/A	0	0	0
A&H Contracts in Force	N/A	1,592	1,464	1,279
Total Adjusted Capital	N/A	5,443,861	5,974,053	5,541,399
Authorized Control Level RBC	N/A	827,093	780,742	659,685
RBC Ratio	N/A	658%	765%	840%

The borrowed money reflected on the balance sheet as of June 30, 2020 is a Paycheck Protection Program loan under the Coronavirus Aid, Relief, and Economic Security Act, which is expected to be forgiven under current published federal guidelines.

Recent years' selected financial statistics for Southern Life and Health Insurance Company are as follows:

Financial Data	06/30/2020¹	12/31/2019	12/31/2018	12/31/2017
Admitted Assets	\$67,733,408	\$68,793,358	\$70,650,751	\$73,924,567
Liabilities	34,078,366	36,007,968	38,483,469	41,742,960
Surplus	33,655,042	32,785,390	32,167,282	32,181,607
Aggregate Reserve – Life	32,020,180	33,175,228	35,128,355	37,150,877
Aggregate Reserve – A&H	0	0	0	0
Contract Claims Reserve – Life	477,050	359,443	374,351	455,744
Contract Claims Reserve – A&H	0	0	0	0
Borrowed Money	0	0	0	0
Direct Premiums Written	0	0	0	0
Assumed Premiums Written	255	1,540	(93,516)	186,532
Net Premiums Written	255	1,540	(93,516)	186,532
Net Investment Income	1,456,850	3,396,006	3,321,523	6,637,151
Total Revenues	1,438,281	3,510,684	3,362,529	6,999,977
Death Benefits	298,478	746,077	815,142	2,630,409
Annuity Benefits	651,218	1,374,269	1,106,185	1,319,987
Disability and A&H Benefits	0	0	0	0
Surrender Benefits	322,111	999,627	843,038	863,950
Total Benefit Payments	105,450	996,816	638,780	3,022,587
General Expenses	238,635	879,791	1,051,534	1,078,985
Dividends to Shareholder	0	532,000	1,064,000	0
Shares Purchased for Treasury	0	0	0	0
Net Income	1,073,014	1,573,271	1,402,586	3,772,980
Life Insurance in Force	N/A	24,824,000	26,248,000	27,723,000
Life Certificates in Force	N/A	26,717	28,256	29,962
Annuity Contracts in Force	N/A	549	566	644
A&H Contracts in Force	N/A	0	0	0
Total Adjusted Capital	N/A	34,571,894	34,205,263	34,489,451
Authorized Control Level RBC	N/A	3,672,461	3,824,714	3,174,615
RBC Ratio	N/A	941%	894%	1,086%

The main financial focus of the review of this Form A was whether the planned reduction of Southern Life and Health Insurance Company's capital and surplus to \$3,250,000 would allow for a reasonable NAIC Risk-Based Capital Ratio, that is, an RBC Ratio in excess of 400%, as well as a positive security surplus excess under s. 623.12, Wis. Stat., and s. Ins 51.80, Wis. Adm. Code. Review of this matter indicated that removal of the subsidiaries from the balance sheet of Southern Life and Health Insurance Company in connection with the transaction results in a dramatic reduction in Authorized Control Level Risk-Based Capital. As of December 31, 2019, the calculation for authorized control level Risk-Based Capital includes risk factors for affiliated common stock totaling \$7,011,778 before applying the covariance calculation. This is 95% of the authorized control level before covariance. All of the stock of affiliated companies will be distributed prior to the closing of the proposed acquisition and will, therefore, not be included in the projected calculation. In its projections of the RBC of Southern Life and Health Insurance Company, Universal Fidelity Life Insurance Company has taken full account of its hypothetical investments. The projected RBC calculation only assumed \$750,000 cash with the balance in investments consistent with achieving the targeted investment return.

The financial condition of Universal Fidelity Life Insurance Company, individually, and the holding company system, taken as a whole, are unlikely to jeopardize the financial stability of Southern Life and Health Insurance Company, the participating domestic insurer, or to prejudice the interests of its Wisconsin policyholders.

¹ [Note: this financial information is as of 3/31/20. We will defer to you as to whether the date should be adjusted to 3/31/20, or if you prefer to update the financial information to be as of 6/30/20.](#)

Competence and Integrity of Prospective Management

After the acquisition of control, the board of directors and management of Universal Fidelity Life Insurance Company will significantly overlap with the board of directors and management of Southern Life and Health Insurance Company.

The Board of Directors of Universal Fidelity Life Insurance Company at the time of this review were as follows:

Name and Residence	Principal Occupation
C. Brent Haggard Edmond, Oklahoma	Chairman, President and Chief Executive Officer Universal Fidelity Life Insurance Company
Brian L. Baxter Lincoln, Nebraska	Principal BLBaxter Consulting, LLC
Lorene A. Hay Richland Hills, Texas	Senior Vice President, Chief Financial Officer, Chief Operating Officer, and Treasurer Universal Fidelity Life Insurance Company
Steven E. Taylor Bethel, Connecticut	Senior Vice President of Business Development Universal Fidelity Life Insurance Company

The officers of Universal Fidelity Life Insurance Company at the time of this review were as follows:

Name	Office
C. Brent Haggard	Chairman, President and Chief Executive Officer
Lorene A. Hay	Senior Vice President, Chief Financial Officer, Chief Operating Officer, and Treasurer
Steven E. Taylor	Senior Vice President of Business Development
Kyle D. Conrad	General Counsel
Jodi M. Cooper	Vice President of Client Relations and Secretary
Penney L. Stewart	Vice President of Medical Claims

As part of the Form A, Universal Fidelity Life Insurance Company provided copies of biographical reports for their officers and directors. Review of the composition of the board of directors and management of Universal Fidelity Life Insurance Company discloses no basis for disapproval of the Form A.

Summary of Observations

1. The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the Form A filing, together with supplementary information obtained by OCI, is sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of Southern Life and Health Insurance Company or its policyholders.

3. After the acquisition of control, Southern Life and Health Insurance Company will not experience a change that would cause it to become unable to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.
4. This transaction will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.
5. The financial condition of Universal Fidelity Life Insurance Company, individually, and the holding company system, taken as a whole, are unlikely to jeopardize the financial stability of Southern Life and Health Insurance Company, the participating domestic insurer, or to prejudice the interests of its Wisconsin policyholders.
6. The plan results in a change in control for Southern Life and Health Insurance Company. The plan does not appear to be adverse to the policyholders of Southern Life and Health Insurance Company, or to conflict with the public interest.
7. The competence and integrity of the persons who would control the operation of Southern Life and Health Insurance Company are such that it is in the interest of its policyholders and of the public to permit the proposed plan.

RECOMMENDATION

I recommend that the plan for the acquisition of control of Southern Life and Health Insurance Company by Universal Fidelity Life Insurance Company be approved, subject to the following conditions subsequent:

- a. Southern Life and Health Insurance Company consents to a stipulation and order issued by the Office of the Commissioner of Insurance under s. 601.41, Wis. Stat., which shall be in a form substantially similar to that provided in Exhibit No. 35 in the record of this proceeding, within thirty (30) calendar days following the consummation of the acquisition of control.
- b. The preferred share redemption and ~~surplus distribution~~ other distributions specifically described in the plan for the acquisition of control of Southern Life and Health Insurance Company are hereby approved. The provisions of s. 617.21, Wis. Stat., and s. Ins 40.04 (2) (a), Wis. Adm. Code, shall govern, if applicable, any other share purchases, capital and surplus distributions, capital and surplus contributions and any dividends by Southern Life and Health Insurance Company.
- c. The revised Administration and Services Agreement included in the record of this proceeding as Exhibit No. 30D is hereby approved. Southern Life and Health Insurance Company shall file an executed copy of this agreement with the OCI within ten (10) calendar days of the consummation of the acquisition of control.

Document comparison by Workshare 10.0 on Saturday, October 3, 2020 4:35:29 PM

Input:	
Document 1 ID	netdocuments://4825-2957-3068/1
Description	Case Rec Memo Southern UFLIC
Document 2 ID	netdocuments://4825-2957-3068/2
Description	Case Rec Memo Southern UFLIC
Rendering set	Standard

Legend:	
<u>Insertion</u>	
Deletion	
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Style change	
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Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	4
Deletions	1
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	5